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in

Nikolaidis A. (ed.), Baourakis G. (ed.), Isikli E. (ed.), Yercan M. (ed.).
The market for organic products in the Mediterranean region

Chania : CIHEAM
Cahiers Options Méditerranéennes; n. 61

2003
pages 179-186

Strategic Analysis of the Supply and the Demand for Organic Foods in Spain

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Abstract: Just as was experienced by the rest of Europe, Spanish organic agricultural output experienced a remarkable growth during the decade of the 90s. Nevertheless, this important advance contrasts with the data referring to internal consumption, with exports being the main destination for most of this food supply. At the beginning of the 21st Century, the continuity of this situation could mean an important restriction in the development of a sector that currently enjoys considerable administrative support, both at the Spanish and European level, and which has been consolidated as one of the most important instruments within the agrarian and rural development policies. This study aims to carry out a strategic analysis of the current situation in Spain with regard to the supply and demand for this kind of product. For this purpose, information from secondary or primary sources has been compiled in order to make a SWOT Analysis, which will enable the strengths, weaknesses, threats and opportunities arising from the supply and demand for this type of product to be identified and which could serve as a starting point for the devising of subsequent strategies to promote the development of the sector.

1. Introduction

Organic foods are the result of a production system based on the use of techniques that are compatible with environmental conservation; techniques that maintain and increase soil fertility, biological diversity and promote the healthy use of our natural resources, exclude the use of synthetic chemical products and offer products that preserve their vital qualities at all stages of the production cycle [1]. Although organic agriculture really took off in the 90s, the origin of this tecnique dates back many years, to the beginning of the twentieth century, when three lines of thought[1], appeared in Northern Europe, all sharing a common idea: the vision of agriculture as a technique that is closely linked to the environment and respect for the existing balance in natural surroundings [2].

However, the objectives of the Agricultural Policy at that time were far removed from the aims proposed by these techniques since, in a Europe where basic food products were scarce, the new Common Agricultural Policy (CAP) focused on three basic points (Treaty of Rome, art. 39) [3]:

- Increasing agricultural productivity with a view to make the markets self-sufficient.
- Guaranteeing the rural population a dignified standard of living.
- Ensuring the self-sufficiency of the markets at a reasonable price.

This fact meant that organic agriculture remained in the background until practically the end of the 80s, when a real revival of these techniques took place due to a greater awareness of the environment and consumers' demands for safer and higher quality food products [4].

[1] Biodynamic Agriculture, Organic Agriculture and Biological Agriculture.

Since then, the supply and demand for organic foods has followed a growing evolution as the production and consumpion figures generated by this sector demonstrate. Nowadays, according to data corresponding to the year 2001, more than 35% of farms in the world dedicated to this type of practice are to be found in the European Union, covering an area of 4,442,875 ha, one fifth of the land given over to organic agriculture in the whole world[2] . Spain itself is in eighth place in the list of the top 10 countries in the world that have the greatest area of land given over to organic farming [5].

However, in spite of this fact, the bulk of Spanish production is exported, with only a small proportion being absorbed by the Spanish markets. This fact is particularly worrying at a time when the consumer's marked preference for local products is beginning to be detected [6].

Currently, organic food production forms part of the objectives laid down by the Council of Europe in Berlin in 1999 and ratified at the Gothenburg Summit in 2001, which center on achieving a competitive agricultural sector, using production techniques compatible with the environment and which enable the high quality products that the customer demands to be obtained [7].

In this study, a strategical analysis of the offer and demand situation in Spain for organic farm products will be carried out, with the aim of detecting the threats, opportunities, strengths and weaknesses, which can be used as a point of reflection when proposing future strategies.

2. Methods

SWOT Analysis has been chosen as the instrument to carry out the strategical analysis outlined in the previous section. It is a suitable method for carrying out a study of the strategical situation and the possibilities of a company [8] or a sector [9], with regard to its competitive environment. This method has been widely used both in rural development applications [10], in businesses [8] or farms management [11], and in the analysis of the situation prior to the design of marketing strategies [12][13]. Many applications of this method exist in the field of food and agriculture, including the one developed by the Ministry of Agriculture in drawing up the Strategic Plan for Organic Agriculture in Spain [14].

Basically, four factors will be identified using SWOT Analysis: Threats, Opportunities, Strengths and Weaknesses.

Opportunities and threats are two factors determined by the offer and demand environment of organic products. These factors are interesting to know with a view to their possible use as an opportunity for development and expansion, or resolving possible limitations.

Weaknesses and strengths are the qualities of the organic products themselves. They will act either as restrictions that must be overcome, since they could limit the development of these products, or, on the contrary, as factors to be maintained and promoted, since they will facilitate their survival and growth.

These four factors have been identified based on the analysis of information from several secondary sources (existing bibliographies, reports from different organisations), as well as from primary sources based on the treatment of data obtained from 130 surveys carried out throughout the year 2003 in a medium-sized city (León), situated in the north of Spain.

[2] This means 3.24% of the Usable Agricultural Space (UAS) and 2.04% of the European farms.

3. Results and Discussion

3.1 The offer of organic products in Spain

3.1.1 Legislative situation

Although the current legal framework that regulates this type of production is based on Regulation (EEC) Nº 2092/91 [15] and Regulation (EC) Nº 1804/1999 [16], legislative protection for this type of production began in Spain in 1988, when it was granted as a generic designation by Royal Decree 759/1988, with the Organic Agriculture Generic Designation Regulation being passed in 1989 [17].

Subsequently, Royal Decree 1852/1993, established the new regulation for organic farming based on Regulation (EEC) 2092/91, at the same time as the Autonomous Communities began to take on jurisdiction in this matter. This Royal Decree created the Regulating Commission for Organic Farming as an advisory body, which has now become a forum in which the sector, consumers and the Central and Autonomous governments take part, acting in an advisory capacity in all matters that affect organic agriculture.

In 1995, a line of specific aid to promote organic farming was set up within the context of the program for agroenvironmental measures, as a result of the application of Regulation (EEC) 2078/1992 on agricultural production methods compatible with the exigencies of environmental protection and the conservation of open spaces and Regulation (EC) 1257/1999 on rural development aid, which has replaced the former. The latter is currently being amended as a result of the Mid Term Review of the Common Agricultural Policy (CAP), with the aim of establishing the legislative framework that will enable measures related to food quality and respectful for the environment to be introduced and promoted in rural development programs, by implementing the necessary aid mechanisms [18].

3.1.2 Evolution of the offer of organic products

The aforementioned legislative instruments have promoted the development of organic farming since, from the appearance of the first regulation until now, the sector has experienced a continuing and important growth and has become one of the most dynamic sectors in Spanish agriculture, placing Spain in fourth place behind Italy, the United Kingdom and Germany with regard to the land area given over to this type of production [19]. The evolution of the area given over to organic farming in Spain is shown in figure 1, together with the increase in the number of operators (both producers and manufacturers) (figure 2).

This increase became more notable in 1996 with the introduction of the specific aid. Since then, the rate of growth of the number of producers who convert to this type of production exceeds the corresponding increase in the area of land, motivating a reduction in the average farm size (figure 1), which in 2002 was 40 ha, with small-sized farms in the communities of the Basque Country, the Rioja, Canary Islands or Galicia, co-existing with the large farms situated in regions such as Aragón, Castile and Leon, Catalunia or Madrid.

Currently, 1,204 manufacturers, 15,521 producers and a total of 665,055 ha, make up the panorama of the Spanish offer[3], characterized by a great variety of production as a result of the climatology in this country, with extensive farming predominating both in agriculture and stockbreeding. Therefore, over half the area given over to organic farming corresponds to fields

[3] Of these 665,055 ha, 47% are registered as organic areas, whereby 34% were converted in the first year of practice and the remaining 19%, later on.

and pasture. With regard to the distribution of crops, arable crops (cereals, pulses, and so forth), together with olive groves, must be highlighted, whereas in stockbreeding, ruminants (mainly cattle and sheep) predominate.

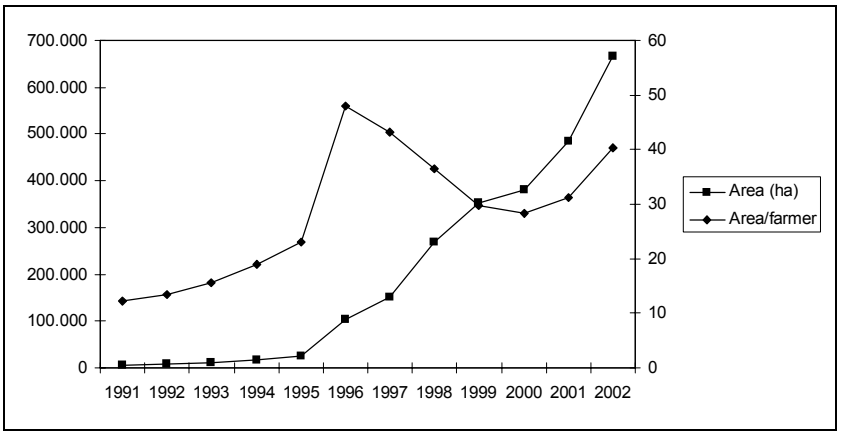

Figure 1. Evolution of area given over to organic agriculture in Spain (1991-2002).
Source: Agriculture, Fisheries and Food Ministry

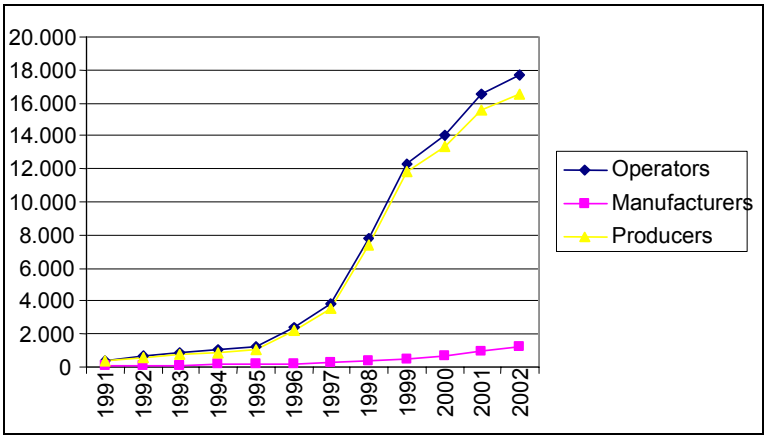

Figure 2: Evolution of the number of operators/producers/manufacturers.
Source: Agriculture, Fisheries and Food Ministry

If we analyze the distribution of this area per Autonomous Community, a trend towards the concentration of this activity to specific areas can be observed. Thus, Extremadura and Andalusia, two of the 17 Autonomous Communites in Spain, make up over half of the area. The same situation is reflected with regard to the number of producers, with 64% belonging to these two regions. However, the same is not true for the number of operators, who are mainly to be found in Catalunia, Andalusia and the Valencian Community, with Extremadura being relatively unimportant. This fact reflects a certain divison that exists between the areas of production and manufacture.

3.2 The demand for organic products

3.2.1 Background

Although the value of commercialized organic production in 2002 reached 172.9 million Euros, the consumption of this type of product in Spain can be regarded as completely secondary, with three quarters of this production being exported to foreign markets, Germany and the United

Kingdom being the main destinations [20]. The rest is sold in national markets, via different types of retail outlets: stores selling dietary foods, herbalist's stores, specialist stores that offer this type of product exclusively, cooperative associations and consumers who buy directly from the producer. Recently, superstores have joined these establishments [21].

In the last few years, events such as the use of hormones in animal food, contamination by dioxines and the Bovine Spongiform Encephalopathy (BSE) have awoken consumers' interest in healthier and more natural eating habits, which has led to an increase in the demand for safer and healthier food products. However, in spite of the existence of consumers worried about their health and eating habits [22] and the growing concern detected in Spanish society about preserving the environment [23], Spanish consumers still consume few organic products. This aspect has aroused the interest of many authors who have researched into the causes of this behavior among Spanish consumers.

The studies carried out in Spain in the last few years are noted for their sectorial nature. They have centered on the different regions of Spain and have tried to evaluate the level of consumers' knowledge, their attitude towards organic products, as well as their possible reasons for buying and/or rejecting them, and in some cases have analyzed the differences existing in this behavior according to different variables. In spite of these studies being carried out in different geographical areas, focusing on cities in some cases and on regions in others, the results obtained show some common points. Below, some results obtained by the authors of this study in research carried out throughout 2003 are set out.

3.2.2 Factors involved in the purchase of organic products

In this study, which was carried out in the city of Leon, health and quality were identified as the variables that carried most weight when deciding whether or not to buy organic products.

There is a high degree of consensus among consumers with regard to the importance attached to these variables, greater than that in the remaining variables. Other important factors are guarantees and respect for the environment, both extrinsic variables. There are also intrinsic variables, such as flavour, although the degree of consensus among consumers in this case is lower than that of the four previous variables. These results show a similiarity between the habits of consumers from Leon and those of other consumers from different parts of Spain [24][25].

Finally, the least importance is attached to the level of chemical waste and geographical origin variables, which show a greater degree of dispersion with regard to the level of consumers' agreement. However, it should be pointed out that all the factors analyzed obtained an average score of over 2.5, on a scale of 1 to 5.

With regard to the variables that exert the greatest power of dissuasion in the purchase of organic products, the variable "high prices", is to be found in first place, obtaining the highest degree of consensus among the consumers surveyed, followed by the difficulty in finding these products and a limited range. This fact seems to confirm the importance of this factor since it has already been observed in other areas by other authors in their respective studies [26][27][28][29][30]. Nevertheless, all the factors have obtained scores of over 3 on a scale of 1-5, which indicates their negative influence on the final decision to purchase.

We can conclude that the characteristics of the producer and consumer sectors, together with specific political, legal and socioeconomic circumstances, make up the framework of threats, opportunities, weaknesses and strengths which are shown below (table 1 and 2).

Table 1. Weaknesses and strengths.

Weaknesses	Strengths
The high price of these products.	Increase in land given over to organic production
Little publicity about the quality labels.	Current increase in the presence of these products on the market
Limited range of products in commercial establishments.	Commercialization of the product in superstores and supermarkets.
Dependency on exportation.	Consumers' assessment of the products.
Low level of implantation of the product in national markets.	The product's image of reliability and stability .
Product's limited presence and variety in commercial establishments.	Consumers' willingness to buy the products.
Lack of information and promotion of organic products.	

Table 2. Threats and opportunities.

Threats	Opportunities
The existance of possible frauds. International competition.	Suitable environment extensive production techniques.
Complexity of the regulation.	Farmers' awareness.
Long and demanding periods for reconversion and application procedures.	Introduction of food quality and agroenvironmental measures for Rural Development.
Lack of information in society.	Legislative and economic aid on a National and European level.
Foreign consumers' preference for local products.	Development of a Strategical Plan for Spanish organic agriculture.
Consumers' ignorance of the legal regulations that guarantee the quality and safety of organic foods.	Expectations in the increase in consumption.
	Consumers' concern about quality and health.
	Consumers' concern about the environment.
	Food scares.

3. Conclusions

In the last decade, the Spanish producing sector has made a great effort to increase the area and production devoted to organic farming and stockbreeding both quantitively and qualititively, up to the point that it now occupies one of the top places along a European and international level. However, there seems to be a big difference between the supply and demand for this product.

Therefore, although organic products have become more widespread among Spanish consumers in the last few years, they still occupy a very low position. Nevertheless, the existence of a large number of consumers who are ocasionally attracted towards these products can now be seen, although the sector has still been unable to consolidate this segment.

The price is still the most important variable in limiting the purchase of these products, which doubtlessly continues to be an important determinant, especially if we take into account the current economic recession and the consumers' tendency to cut down on food shopping in these situations.

Other variables that curb the development of consumption as a regular practice are: difficulty in finding these products on the market and the limited range in commercial establishments.

Lack of knowledge and information is one of the variables that plays one of the most important roles in consumption as a result of the number of consumers who associate them exclusively with healthier or more natural foods, without knowing the true meaning of organic production as laid down by European regulations [15] [16]. The fact that most consumers do not demand the logo of the Regulating Councils as a guarantee of organic production proves this point.

Thus, an intense promotion and informative campaign is required, so that, consumers can get to know the true meaning of organic products, their advantages and the regulation procedures that gurantee their quality in order to avoid possible frauds.

At the same time, control measures and the number of inspections must be increased in order to guarantee the quality of these foods, especially in a new market.

Guaranteeing a suitable price for the consumer is another of the market challenges that has to be met and is closely linked to the problems and profit margins involved in the commercial distribution of these products.

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